

Item: MODIFICATION TO THE ZERO INTEREST LOAN PROGRAM

Department: Planning & Community Development

BACKGROUND

In April 2014, the Village Board approved the Zero Interest Loan program to help encourage economic development in Arlington Heights. The program was the result of months of collaboration between Village Staff and the Arlington Economic Alliance. As approved, the program offered an interest-free loan of up to one-half of eligible project costs, not to exceed \$10,000. Eligible applicants are any new or existing for-profit businesses, and the incentive covers a range of potential costs such as start-up/relocation expenses, interior build-out, and purchase of equipment. Repayment of the loan is made in quarterly installments, not to exceed five years, and the loans are awarded following review and approval from the Village's designated loan committee. In 2015, per the Economic Alliance's recommendation, the Village Board approved increasing the maximum loan amount to \$20,000.

Since the inception of the Zero Interest Loan program in 2014, the Village has approved 14 standard interest-free loans totaling \$248,050 (independent of COVID-relief loans and CDBG-funded forgivable loans provided during the pandemic). However, from June 2021 through September 2022, the Village received and approved only one standard Zero Interest Loan application. In the meantime, the Loan fund has grown to over \$1.3 million. In light of this, Staff discussed the program with the Arlington Economic Alliance in October 2022 to consider ways to make the program more enticing to prospective and existing small businesses. The following memo provides context on the program, as well as recommendations on how to improve it. *Note: since discussion with the Economic Alliance, one additional standard loan has been approved and distributed.*

In October 2022, Village Staff discussed with the Economic Alliance ways to further enhance the program and make it more enticing for new and existing businesses alike. Following those discussions, Staff is proposing three changes to the Zero Interest Loan program:

1. Increasing the maximum loan amount to \$25,000
2. Allowing the loan to cover up to 75% of eligible project costs (up from 50%)
3. For businesses that have been operating within Arlington Heights for at least three years, having a provision in which the final 20% of repayment would be forgiven if the previous 80% is repaid on time

These modifications were presented to the Arlington Economic Alliance on April 19, 2023. The Commission voted in favor of all these changes, with the incorporation of language that loan requests greater than \$25,000 can be considered on a case-by-case basis but would need final approval from the Village Board.

GOAL AND PURPOSE

The Zero Interest Loan Program is designed to provide financial assistance to prospective and existing businesses within the Village of Arlington Heights. The program is intended to assist companies' growth within the Village while enhancing a diverse business climate, both communitywide and regionally. An ideal applicant will show, or have the potential for, long-term growth within Arlington Heights.

FUNDING

The program was initially funded by seed money approved by the Village Board, and is now primarily funded through rebates from recipients of the Cook County Class 6b and 7c property tax abatement incentives, as well as repayment on existing interest-free loans. In order to fund the Zero Interest Loan program, Class 6b/7c recipients agree to rebate the Village 10% of their property tax savings over the first three years of the 7c designation, or the first five years of the Class 6b designation. Funds generated from these rebates are designated specifically to the Zero Interest Loan fund, including a \$1,000 application fee for the Class 6b/7c incentives.

JUSTIFICATION FOR CHANGES

Since the current program's commencement in 2014, the Village has approved 14 interest-free loans totaling \$248,050*. Since June 2021, two Zero Interest Loan applications have been submitted to Staff (one has been awarded and one is currently under review). In order to better utilize the program and its funds, Staff sought the input of the Economic Alliance for ways to generate more interest in the program. The Zero Interest Loan program currently has over \$1.3 million in funds, and these proposed modifications are expected to help generate more interest.

**Note, this data is separate from the 18 COVID-relief interest-free loans that were approved in 2020 and the 16 forgivable business loans via CDBG funding*

EXISTING LOAN STRUCTURE

Eligible applicants under the program are for-profit enterprises either looking to locate, or enhance their current operations, within the Village. Eligible costs may include:

- Start-up or relocation into an Arlington Heights property
- Expansion within current location
- Interior build-out
- Purchase of machinery or equipment
- Energy efficiency improvements
- Upgrades to technology
- Other improvements as may be approved by the Village that enhance occupancy rates, employment figures, and/or tax revenue

Currently, an approved applicant is eligible to receive a loan of up to 50% of the total project cost, not to exceed \$20,000. The loan recipient accrues no interest on the loan for a maximum term of five years, but no longer than the remaining lease term. Loans become due and payable at the maximum term of the loan, with quarterly loan repayments equal to the amount and duration of the loan.

PROPOSED LOAN STRUCTURE

The changes proposed would increase the maximum loan amount from \$20,000 to \$25,000, cover up to 75% of project costs (an increase from 50%), and enable a forgivable provision for existing businesses. There would be no changes regarding eligible costs, interest accrued, or repayment schedule. Requests for greater than \$25,000 could be considered on an individual basis by Staff and would ultimately require Village Board approval.

ALLIANCE MOTION

At their April 19, 2023 commission meeting, the Arlington Economic Alliance voted to unanimously recommend the aforementioned changes for approval, with the incorporation of language that loan requests greater than \$25,000 can be considered on a case-by-case basis, but would need final approval from the Village Board.

RECOMMENDATION

It is recommended that the Village Board concur with the Arlington Economic Alliance motion to:

1. Increase the maximum loan amount to \$25,000
2. Allow the loan to cover up to 75% of eligible project costs
3. Have a provision in which the final 20% of repayment would be forgiven, if the previous 80% is repaid on time, exclusively for businesses that have been operating within Arlington Heights for at least three years
4. Permit consideration of loans greater than \$25,000 on a case-by-case basis, with the request requiring final approval by the Village Board